

STATE OF VERMONT
PUBLIC SERVICE BOARD

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Joint Petition of Vermont Electric	:	
Cooperative, Inc. and Citizens	:	PSB Docket No. 6850
Communications Company For	:	
Transfer of Assets	:	
	:	
Joint Petition of Vermont Electric	:	PSB Docket No. 6853
Cooperative, Inc. and Citizens	:	
Communications Company For	:	
Transfer and Assignment of	:	
Hydro-Québec Contracts	:	
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**MEMORANDUM OF UNDERSTANDING AMONG CITIZENS
COMMUNICATIONS COMPANY D/B/A CITIZENS ENERGY SERVICES AND
THE VERMONT DEPARTMENT OF PUBLIC SERVICE**

With respect to the above referenced petitions, Citizens Communications Company d/b/a Citizens Energy Services and the Vermont Department of Public Service (collectively "Parties") hereby agree and stipulate as follows:

WHEREAS, On April 15, 2003, Vermont Electric Cooperative, Inc. ("VEC") and Citizens Communications Company d/b/a Citizens Energy Services ("Citizens" or "VED") entered into a Purchase and Sale Agreement ("PSA"), pursuant to which VEC will acquire, subject to the exclusions referred to in the PSA, substantially all of the assets of the VED consisting primarily of VED's distribution assets, a portion of its transmission assets, as well as other intangible assets (the "Assets"), and

WHEREAS, the Department of Public Service (the "Department" or "DPS") has engaged in discovery and settlement discussions with respect to the petitions and other documents filed by the Petitioners, and

WHEREAS, Citizens continues to be on regulatory probation pursuant to Orders entered in Public Service Board Docket Nos. 5841 & 5859, and the Parties desire to resolve those dockets and matters relating to Citizens' probation in connection with the sale of Citizens' remaining Assets in Vermont;

NOW, THEREFORE the Parties agree as follows:

1. In this document, the following definitions will apply:
 - a. "Board" or "PSB" means the Public Service Board.
 - b. "Citizens" means Citizens Communications Company d/b/a Citizens Energy Services.
 - c. "Closing" means the date on which Citizens transfers, to VEC, title to the Assets.
 - d. "DPS" or the "Department" means the Vermont Department of Public Service.
 - e. "Parties" means Citizens and the Department, unless otherwise stated (e.g. in connection with a reference to the "parties" to Dockets 6850 and 6853).
 - f. "Petitioners" means Citizens and VEC.
 - g. "PSA" means the Purchase and Sale Agreement between Citizens and VEC dated April 15, 2003 and filed by the Petitioners in this docket.
 - h. "MOU" means this Memorandum of Understanding between Citizens and the Department, unless otherwise specified (e.g. to

refer to a MOU between VEC and the Department also filed in this Docket).

i. “VED” means the Vermont Electric Division of Citizens.

j. “VEC” means Vermont Electric Cooperative, Inc.

2. The Petitioners stipulate that:

a. The “Knowledge” definition contained in § 1.1 of the PSA is relevant only to those provisions of the PSA in which the capitalized term “Knowledge” is used, and has no bearing on the meaning or interpretation of any other section(s) of the PSA.

b. The “Knowledge” definition contained in § 1.1 of the PSA is hereby amended to include Citizens employees Steve Johnson, Assistant Manager, Transmission and Distribution, and Jeff Christensen, Manager, Special Projects, or their respective successors. Citizens acknowledges that Citizens’ in-house legal counsel are obliged to communicate to the people listed in the definition of “Knowledge,” as amended, any and all information relating to the VED or this transaction that is relevant to the provisions in the PSA in which the term "Knowledge" is used. Citizens further acknowledges that Citizens’ outside legal counsel, namely Eggleston & Cramer, is obliged to communicate to Citizens' in-house counsel any and all information relating to the VED or this transaction that is relevant to the provisions in the PSA in which the term "Knowledge" is used and that is acquired

by such counsel during the course of their representation of Citizens.

- c. Limitations on Seller's Liability - the time set forth in the final clause of § 13.3(b)(1) is hereby amended to read fifth (5th) anniversary instead of third (3rd) anniversary.

3. Citizens shall make refunds to VED customers of \$720,917. This amount represents funds collected from VED customers for payment of potential income tax liabilities that Citizens may not be required to pay. Citizens does not agree that it can or should be legally required to refund such deferred taxes to customers, but has agreed to make the refund described herein to settle this issue without further litigation. This refund resolves all issues related to deferred tax balances including any issues related to the pending request for revenue ruling which the Board required in Docket No. 6596. Regardless of the outcome of that revenue ruling, the Parties agree that Citizens shall have no further refund obligations in connection with deferred tax balances. Refunds by Citizens under this Stipulation to its retail ratepayers shall be accomplished in the following manner:

- a. At Closing Citizens shall provide to VEC the sum of \$720,917 to be refunded by VEC to the former Citizens customers;
- b. Prior to Closing, Citizens shall calculate refunds on the basis of a retail customer's proportionate annual total amount paid for electric service of all retail customers over the most recent twelve-month period;
- c. After Closing, VEC shall apply the refund amount in the form of a

credit on the bills of Citizens' former retail customers no later than the first complete monthly billing period following the Closing; and

- d. The credit shall remain on the bill of each such customer until the credit is exhausted.

4. With respect to the refund described in the immediately preceding paragraph, VEC will make at least the following filings with the Board:

- a. No later than five days after the Closing, VEC will file with the Board:
 - (i) VEC's proposal for how it will allocate that amount to individual retail customers consistently with paragraph 3a, above; and
 - (ii) if seasonal retail customers will not receive bills during the monthly billing period described in paragraph 3b, above, how VEC proposes to accomplish the refund to such seasonal customers.
- b. No later than 60 days after the first placement by VEC of the refund credits on the bills of its retail customers, VEC shall file a schedule listing the date of each billing cycle in which the credit was applied and how much of the credit was applied in each such billing cycle.

5. Citizens shall enhance the benefits to be received by VEC from its transaction with Citizens by providing a credit to VEC in the amount of \$2,900,000 (two

million nine hundred thousand dollars) to reduce the amount of cash payable by VEC to Citizens at Closing, but not as a reduction to the purchase price or amount to be financed by VEC. This credit shall be made at the Closing, and the credit shall be used by VEC in accordance with a separate agreement between the DPS and VEC.

6. Citizens shall make a payment to the General Fund of the State of Vermont in the amount of \$250,000 (two hundred fifty thousand dollars), in full settlement of any claims related to Citizens' compliance with the terms of probation imposed in PSB Docket Nos. 5841/5859. By making this payment Citizens does not admit that it has violated any of the terms of probation, nor that it is legally liable for fines or penalties. The Department agrees that, as a condition to approval of this Stipulation, the Board shall simultaneously issue an order dismissing Docket Nos. 5841/5859 with prejudice and closing those Dockets, such order to be effective upon Closing.

7. The Parties have made compromises on specific issues to reach this Stipulation. The Parties agree that this Stipulation relates only to these Parties and should not be construed by any party or tribunal as having precedential or any other impact on any other proceedings involving a different transaction, different subject matter, other utilities, or other parties. With respect to such proceedings, the Parties reserve the right to advocate positions that differ from those set forth in this Stipulation.

8. The Parties agree that, should the Board fail to approve this Stipulation in its entirety, the Parties' agreements set forth herein shall terminate and the Parties shall have the right to file prefiled testimony on all issues in this docket and the Parties' agreements in this Stipulation shall not be construed by any party or tribunal as having

precedential impact on any testimony or positions which may be advanced in these proceedings.

9. The Board shall have jurisdiction, following issuance of a certificate of consent to sale of the Assets by Citizens to VEC, to resolve any disputes arising under this Stipulation.

10. The Department shall have an opportunity to be heard on any filings made with the Board under this Stipulation.

11. Based on the above agreements, the Parties agree that the Board should issue a certificate of consent under 30 V.S.A. § 109 for the sale of Assets by Citizens to VEC with the specific conditions agreed upon above.

12. Nothing in this Memorandum of Understanding shall bind the DPS to take or refrain from taking any position on any issue not addressed herein, including any issue raised by any other party to this docket, or in any future docket.

Dated at Burlington, Vermont, this ____ day of _____, 2003.

EGGLESTON & CRAMER, LTD.

By: _____
Victoria J. Brown
P.O. Box 1489
Burlington, VT 05402-1489
802-864-0880

Attorneys for Citizens
Communications Company d/b/a
Citizens Energy Services

Dated at Montpelier, Vermont, this ____ day of _____, 2003.

VERMONT DEPARTMENT OF
PUBLIC SERVICE

By: _____
Geoffrey Commons
112 State Street, Drawer 20
Montpelier, VT 05620-2601
802-828-4010

Vermont Electric Cooperative, by its undersigned authorized representative,
agrees that the provisions set forth in section 2 above valid amendments to the PSA made
in accordance with section 14.13 of the PSA.

Dated at Burlington, Vermont, this ____ day of _____, 2003.

Vermont Electric Cooperative, Inc.

By: _____
Kelly Enright
Executive Manager and Vice President

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